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INTERNAL AUDIT REPORT

LADY READING HOSPITAL, PESHAWAR

GOVERNMENT OF KHYBER PAKHTUNKHWA

Financial Year 2011-12

CONTENTS		Page
I	Abbreviations & Acronyms	4
1	Executive Summary	5
2	Introduction and Financial Highlights of Lady Reading Hospital	9
3	Part I –Fixed Assets Management Issues	12
3.1	<i>Internal Control Weaknesses</i>	13
3.1.1	Maintenance of Fixed Asset Register	14
3.1.2	Physical Verification of Fixed Assets	15
3.1.3	Fixed Assets Capitalisation Policy	16
3.1.4	Fixed Assets Disposal Policy	17
3.1.5	Rent receivable from Shops	18
3.2	<i>Irregularities and Non Compliance</i>	19
3.2.1	Non availability of log books	20
4	Part II – Receipts related Issues	21
4.1	<i>Internal Control Weaknesses</i>	22
4.1.1	Segregation of duties	23
4.1.2	Prompt deposit of cash	24
4.1.3	Receipt vouchers with same numbers	25
4.1.4	Reconciliation of cash receipts	26
4.1.5	Cash receipts other than hospital operations	27
4.1.6	Security of cash	28
4.2	<i>Performance</i>	29
4.2.1	Significant variation between budgeted and actual receipts	30
5	Part III - Human Resources Management Issues	31
5.1	<i>Internal Control Weaknesses</i>	32
5.1.1	Human Resources Policy	33
5.1.2	Proper maintenance of record	34
5.2	<i>Irregularities and Non Compliance</i>	35
5.2.1	Preparation of Seniority list	36
5.3	<i>Performance</i>	37
5.3.1	Staff accommodation	38
5.3.2	Key Posts vacant	39
5.3.3	Human Resources Department	40
6	Part IV - Information Technology related Issues	41
6.1	<i>Internal Control Weaknesses</i>	42
6.1.1	Unlicensed software	43
6.1.2	Non availability of Uninterruptible Power Supply	44
6.1.3	Disaster recovery planning	45
6.1.4	Availability of fire extinguishers	46
6.1.5	Physical access issues	47

6.2	Performance	48
6.2.1	Online Hospital Management System (OHMS) failed to meet its objectives	49
6.2.2	Key IT posts remained vacant during the year	50
6.2.3	Risk related to loss of patient data	51
6.2.4	Adoption of new technology	52
7	Part V - Procurement and Stores related Issues	53
7.1	Internal Control Weaknesses	54
7.1.1	Purchase requisitions not available	55
7.1.2	Inventory management	56
7.1.3	Year end physical stock take and coding system – Equipment store	57
7.1.4	Inventory issue from the linen stores	58
8	Part VI – Service Delivery Issues	59
8.1	Performance	60
8.1.1	Bed occupancy ratio higher than 100%	61
8.1.2	Patients’ medical cost per day	62
8.1.3	Non availability of specialized Ultrasound in 2 nd shift	66
8.1.4	Non availability of waste management plan	64
8.1.5	Installation of X-RAY machines in normal rooms	65
8.1.6	Non availability of necessary equipment	66
8.1.7	Miscellaneous issues related to Ambulances	67
8.1.8	Delay in payments to suppliers	68
8.1.9	Hygiene related issues	69
	Annexure 1 - Risk Matrix	70
	Annexure 2 - List of vacant IT Staff	71

I. Abbreviations & Acronyms

1	ASP	Assessment & Strengthening Program
2	A&E	Accidents and Emergency(formerly Casualty)
3	APPM	Accounting policies and procedures manual
4	ENT	Ear, Nose and Throat
5	GFR	General Financial Rules
6	GoKPK	Government of Khyber Pakhtunkhawa
7	HR	Human Resources
8	HRD	Human Resources Department
9	IT	Information Technology
10	LRH	Lady Reading Hospital
11	OHMS	Online Hospital Management System
12	OPD	Out patient Department
13	OT	Operation Theatre
14	POL	Petrol, oil and lubricants
15	RSPN	Rural Support Program Network

1. Executive summary

INTRODUCTION

Taking a lead in the reform measures, Government of Khyber Pakhtunkhwa (GoKPK) has decided to introduce internal audit in all the provincial government departments. This decision was taken by the government at the highest level i.e. Provincial Cabinet. This demonstrates strong political will in the province to introduce reforms in order to achieve accountability and transparency by bringing in a very important internal control mechanism in the system. The finance department of KP has shown immense commitment and has already started internal audit function as a pilot from pension and salaries in the finance department using their own resources. The commitment of the provincial government could also be gauged from the fact that the Finance Department formally approached ASP-RSPN for assistance in implementation of their reform agenda. GoKPK requested ASP-RSPN to provide assistance in the establishment of internal audit at the Finance Department, on pilot basis, which will be later replicated horizontally and vertically at all the departments. Internal audit of the Lady Reading Hospital is also part of the overall strategy of understanding different financial management issues which effect transparency and governance in the health sector.

SCOPE

Internal audit of the Lady Reading Hospital was carried out for the financial year 2011-2012. The audit was carried out at Lady Reading Hospital situated on Khyber bazaar road, Peshawar.

During the audit different areas of financial management were scrutinized including; Treasury, Procurement (Purchases & Payables), Inventory, Human Resource Management, Fixed Asset Management, IT (Online Hospital Management System), Financial reporting.

The audit adopted a multi-facet approach and was focused on different aspects such as financial, operational, compliance and performance.

METHODOLOGY

The audit was carried out using risk based approach. The approach entails that more attention must be focused on the areas of high risk. For detail of risk categorisations of different functions, being audited, kindly refer to the risk matrix in Annexure 1 of the report. Following was the detailed approach adopted;

- Understanding of the entity and its operations
- Assessment of overall control environment and related risks (inherent, control and detection risks)
- Review of processes and controls
- Test of controls
- Detailed testing of major expenditure
- Analytical procedures
- Checked compliance with laws and regulations

KEY AUDIT FINDINGS OF THE REPORT

Internal Control Weaknesses;

- 1) Fixed asset register was not maintained by the hospital
- 2) Year end physical verification of fixed assets was not carried out
- 3) Fixed assets capitalisation and disposal policies were not available
- 4) Due to non availability of fixed asset register the amount of rent receivable from shops was not properly accounted for.
- 5) There was a lack of segregation of duties in cash receipt, recording and deposit
- 6) Carrying of cash for deposit by a single person poses security threat
- 7) Receipt vouchers with same numbers puts the integrity of the system into question
- 8) Cash received was not deposited into bank account on a daily basis
- 9) Human resources policy was not available
- 10) HR record being not maintained properly
- 11) Unlicensed software were installed on different workstations
- 12) Non implementation of certain IT controls may result in data loss
- 13) Data and equipment were prone to damage due to lack of disaster recovery planning
- 14) Physical access to sensitive equipment and data was not restricted to specific personnel
- 15) Purchase requisitions were not available in the files
- 16) Inventory management controls were not available
- 17) Year end physical stock take and coding of the stock and equipment was not carried out
- 18) Controls around Inventory issue from the linen stores were not effective.

Irregularities and Non Compliance;

- 1) Log books were not available for different vehicles used by the hospital
- 2) There was no seniority list of staff available in the HR department

Performance;

- 1) We observed significant variation between budgeted and actual receipts
- 2) Retired staff were still using the hospital's provided accommodation
- 3) Key Posts remained vacant in IT and other departments through out the year
- 4) There has been no proper human resources department being setup
- 5) OHMS failed to meet its objectives of providing a complete MIS support to the hospital
- 6) Risk related to loss of patient data due to disconnection from the network
- 7) Bed occupancy ratio higher than 100% will effect the service delivery
- 8) Patients' medical cost per day, on average, was higher as compared to other hospitals
- 9) Non availability of specialized Ultrasound in 2nd shift will effect service delivery
- 10) Non availability of waste management plan will have an impact on cleanliness
- 11) Installation of X-RAY machines in normal rooms will have hazardous effect on health
- 12) Non availability of necessary equipment will effect service delivery
- 13) Delay in payments to supplier may discourage quality vendors from doing business with the hospital

RECOMMENDATIONS

Following are our recommendations;

- 1) The management should maintain fixed asset register and develop policy for physical verification, capitalisation and disposal of fixed assets.
- 2) Segregation of duties among collection, recording and depositing should be implemented in cash receipt section. Moreover, any cash received should be deposited promptly in the bank account.
- 3) An HR policy should be developed and proper HR documentation be maintained
- 4) All controls relating to IT should be implemented and a disaster recovery plan devised.
- 5) Controls in procurement and stores be strengthened including controls over purchase requisitions, inventory management, inventory count and coding.
- 6) Log books should be maintained for all the vehicles used in the hospital
- 7) A staff seniority list should be maintained in accordance with the instructions of the fiancé department
- 8) Revenue estimates should be prepared meticulously
- 9) Key vacant posts should be filled with qualified and professional staff so that the organisation's operations are carried on smoothly
- 10) The management should give serious thought to different issues affecting service delivery including bed occupancy, patient cost, non availability of equipment etc and find ways and means to overcome these issues.

2. Introduction and Financial Highlights of Lady Reading Hospital

INTRODUCTION

Lady Reading Hospital Peshawar was built in 1928. Initially it provided services to the Armed Personnel of the British Army and limited services to the Government servants as well. Later on it spread gradually and with the establishment of Khyber Medical College, its status was raised to a Teaching Hospital and was attached to Khyber Medical College.

In 1984, Post Medical institute was established in LRH and it gave academic services to the Post Graduate Students from all over the province and from Foreign as well.

This hospital was initially built on a small unit at the western Bank of the city and with the passage of time when the city was spread; its position came to the point as it is situated in the centre of the radius of the city. Now it is covered with the city encircled by roads from the sides of the city and also the main highways passing through Peshawar city are link with it. The patients are referred to it from all over the province.

In October, 1999 NWFP (Now as Khyber Pakhtunkhawa) Medical and Health Institutions Reforms Bill was passed By the provincial Assembly on 24th September 1999 and assented to by the Governor of NWFP on 7th October 1999 and was published as an Act of the Provincial Legislature of by NWFP by giving them an autonomous character in order to provide quality health care for the people of the province.

AREA COVERED

1	Total Area.	1,219,680 SFT (224 Kanal)
2	Area Covered by Building	175,000 SFT
3	Area covered by Road	110,000 SFT
4	Area covered by Lawn	125,000 SFT
5	Open Area	809,680 SFT

FINANCIAL HIGHLIGHTS

During the financial year 2011-2012 the receipts of the hospital amounted to Rs. 2431.28 million. The budgeted expenditure for the financial year 2011-2012 amounted to Rs. 1388.41 million whereas actual expenditure amounted to Rs. 1222.76. million. A comparison of budget and actual expenditure has been given on the next page.

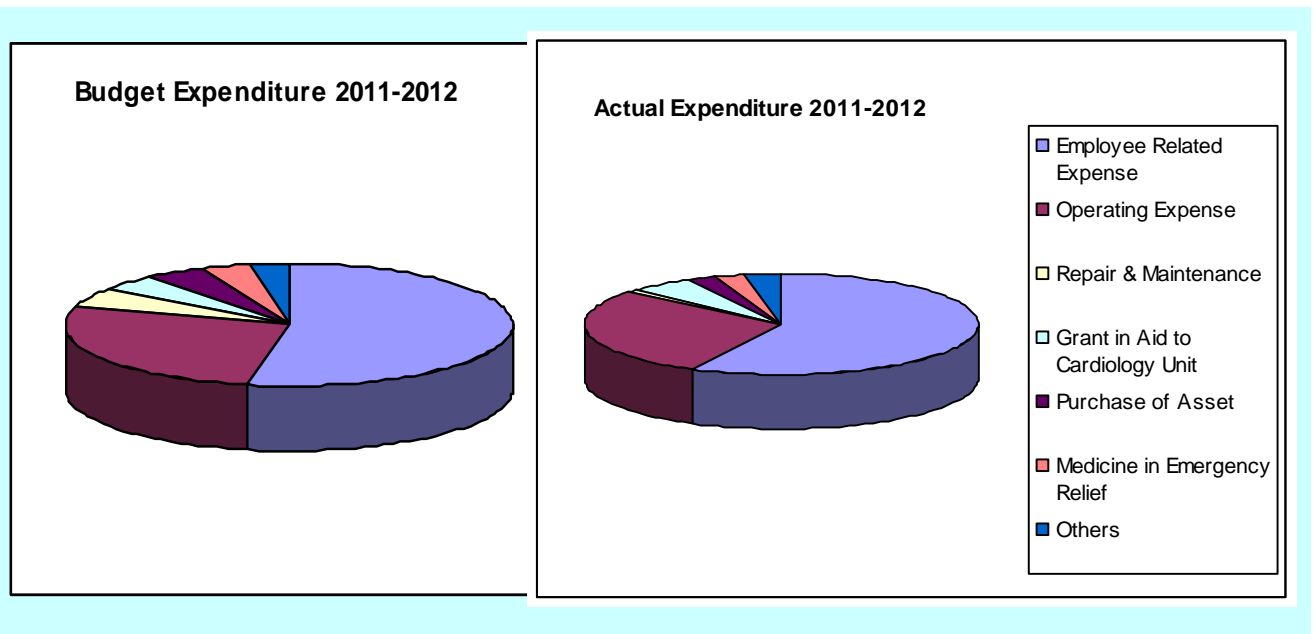
LADY READING HOSPITAL, PESHAWAR

Internal Audit Report

For the Financial Year 2011-2012

Rs in million

Particulars	Budget Expenditure 2011-2012	Actual Expenditure 2011-2012
Employee Related Expense	735.66	701.74
Operating Expense	372.56	346.16
Repair & Maintenance	70.81	10.59
Grant in Aid to Cardiology Unit	60	68.55
Purchase of Asset	59.88	28.64
Medicine in Emergency Relief	52	29.37
Others	37.5	37.71
Total	1388.41	1222.76



3. Part I –Fixed Assets Management Issues

3.1 Internal Control Weaknesses

Observation 3.1.1 - Maintenance of Fixed Asset Register**Risk Ranking****HIGH****Criteria/Importance**

A Fixed Asset Register allows an organisation to keep track of details of each fixed asset, ensuring control and preventing misappropriation of assets. It also keeps track of the correct value of assets, which allows for computation of depreciation and for tax and insurance purposes

Under the notification of health department of Govt. of Khyber Pakhtunkhawa dated June 26, 2001 and section 9.5.1.3 of Accounting policies and procedures manual (APPM).

- The management of LRH with the help of Director Finance must prepare an up to date register of fixed assets.
- All fixed assets shall be recorded in fixed assets register.

Condition

No Fixed Asset Register was maintained.

Implication

Non maintenance of Fixed Asset Register may result in theft of an asset remaining unnoticed. Furthermore, certain life saving machines may not be repaired on time.

Recommendation

It is strongly recommended that a Fixed Asset Register be maintained .It will allow the hospital to keep track of details of each fixed asset, ensuring control and preventing misappropriation of assets.

Management Response**Further Audit Comments****Action Plan**

Role Responsible

Director Finance

Estimated Completion
Date

TBA

Observation 3.1.2 - Physical Verification of Fixed Assets			
Risk Ranking	HIGH		
Criteria/Importance			
At the end of the accounting period a fixed asset physical verification is carried out. This exercise gives management assurance that the fixed assets recorded in the books are physically available and are in good condition.			
Condition			
Physical verification of fixed assets was not carried out.			
Implication			
With out physical verification it may not be possible to ensure that the assets recorded in the books are also physically available and are in good condition.			
Recommendation			
It is strongly recommended that Physical verification of the assets should be carried out at regular intervals to ensure that control over assets remains effective.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 3.1.3 - Fixed Assets Capitalisation Policy			
Risk Ranking	MEDIUM		
Criteria/Importance			
<p>The capitalisation threshold is the minimum purchase amount of an item that would require it to be recorded as an asset and capitalised, rather than expensed as a period cost. It is important that an organization have a defined policy for the capitalization of fixed assets.</p> <p>According to APPM section “13.4.1.4 Every fixed asset purchased or improvement/extension made above Rs 100,000 shall be recorded in the Fixed Assets Register. This threshold should be subsequently adjusted in the light of experience and better defined management information requirements”</p>			
Condition			
There was no fixed asset capitalisation policy available.			
Implication			
With out a proper capitalisation policy it will not be possible to decide whether to capitalise a purchase amount or expense out as a period cost.			
Recommendation			
It is recommended that a capitalisation policy may be developed to ensure that purchases above certain amount are capitalised.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 3.1.4 - Fixed Assets Disposal Policy			
Risk Ranking	MEDIUM		
Criteria/Importance			
According to APPM section 13.5.1 about general policy on disposal of fixed assets “Surpluses should be sold as quickly as possible, subject to value for money consideration and guidelines set by government in relation to disposal of fixed assets”			
Condition			
There was no fixed asset disposal policy available.			
Implication			
A proper disposal policy will ensure assets are disposed of in manner giving value for money to the organisation. Not having a policy will have a vice versa impact.			
Recommendation			
It is recommended that a fixed asset disposal policy may be developed to ensure that assets are disposed of in a fashion beneficial to the organisation.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 3.1.5 - Rent receivable from Shops			
Risk Ranking	HIGH		
Criteria/Importance			
According to APPM section 9.5.1.3 “All fixed assets shall be recorded in fixed assets register”. APPM further explains it in section 13.4.1.5 “The record of each item shall also include references to the relevant files, plans and deeds, source of acquisition, and give other relevant details such as rents payable or receivable, and restrictive covenants”			
Condition			
There was no detailed record in a fixed asset register about the “KIOSK SHOP IN STAFF COLONY” as required by APPM.			
Implication			
As a result following issues were noted:			
<ul style="list-style-type: none"> • Rent was received in arrears rather than in advance • Lower rent was received than actually agreed 			
Recommendation			
It is recommended that a fixed asset register should be maintained with details of all the assets including references to the relevant agreements and give other details such as rent receivable..			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

3.2 Irregularities and Non Compliance

Observation 3.2.1 - Non availability of log books			
Risk Ranking	HIGH		
Criteria/Importance			
According to GFR “logbooks in respect of every govt. vehicle has been maintained and following duly entered in the same:			
<ul style="list-style-type: none"> • POL consumed, • Purpose of journey • Kilometers covered 			
Condition			
There were eight ambulances operated by the hospital but log books were not maintained			
Implication			
It will not be possible to ascertain the POL consumed and the purpose for which the vehicles were used.			
Recommendation			
It is recommended log books for all the vehicles used in the hospital be maintained.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

4. Part II – Receipts related Issues

4.1 *Internal Control Weaknesses*

Observation 4.1.1 - Segregation of duties			
Risk Ranking	HIGH		
Criteria/Importance			
<p>Following is considered best practices in control over cash receipts;</p> <p>“The individual collecting the cash and depositing the funds should be someone different than the individual responsible for entering that data into the system/writing the cash book. The individual collecting the funds should not have update access to the system/books of accounts”</p>			
Condition			
<p>During the course of audit it was observed that the accounts officer receives cash and also maintains the record. Moreover, another person performing the functions of receiving clerk also deposit the money in the bank account.</p>			
Implication			
<p>There are chances of misuse/misappropriation of cash.</p>			
Recommendation			
<p>It is recommended that proper segregation of duties should be implemented in receiving, recording and depositing functions of the receipt section.</p>			
Management Response			
<p></p>			
Further Audit Comments			
<p></p>			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA
<p></p>			

Observation 4.1.2 - Prompt deposit of cash			
Risk Ranking	HIGH		
Criteria/Importance			
According to section 1.5.5.7 of APPM “Amounts exceeding Rs 1,000 should be banked on the same day received by the entity. If such an amount is received by the entity after the bank has closed for the day, it must be held in the entity’s safe hands and banked immediately the following day”			
Condition			
During the course of audit, in the receipt section, it was observed that cash was deposited in the bank with a gap of two to three days			
Implication			
There are chances of misuse/misappropriation of cash.			
Recommendation			
It is recommended that cash should be deposited on the same day or the following day.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 4.1.3 - Receipts vouchers with same numbers			
Risk Ranking		HIGH	
Criteria/Importance			
It is considered best practice that all the vouchers, including receipts, should be pre-numbered and any unused receipt books should be kept under lock and key			
Condition			
During the course of audit, in the receipt section, receipts with same numbers were observed.			
Implication			
There are chances of misuse/misappropriation of cash.			
Recommendation			
It is recommended that cash receipt book should be pre-numbered and any unused receipts books should be kept with person independent of cash receiving function.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 4.1.4 - Reconciliation of cash receipts			
Risk Ranking	HIGH		
Criteria/Importance			
According to APPM section 1.5.5.6 “An officer, independent of the receiving officer must maintain a cashbook containing a date-wise record of all receipts collected. This officer must verify that the deposit slip from the bank, agrees with the receiving officer’s receipt vouchers for that day”.			
Condition			
We have observed that no reconciliation is carried out for the receipts by an independent person.			
Implication			
There are chances of misuse/misappropriation of cash.			
Recommendation			
It is recommended that reconciliation of cash receipt should be carried out by a person independent of receipt section. This reconciliation should not only be with the bank deposit slips and receipt vouchers but also with the bank statement. Such reconciliation once prepared should be reviewed by a superior officer. The frequency of the reconciliation has been left to management discretion , however, it must be carried out at least on a weekly basis.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 4.1.5 - Cash receipts other than hospital operations			
Risk Ranking	HIGH		
Criteria/Importance			
Except from the revenue generated from hospital general operations such as MRI fee or OPD chit fee, which are to be received in cash, basically meant to facilitate the patients, all other receipts should be deposited in bank account directly.			
Condition			
We have observed that the rent was received from Kiosk shop in staff colony in cash.			
Implication			
There are chances of misuse/misappropriation of cash.			
Recommendation			
It is recommended that all other receipts should be directly deposited in the hospital's bank account.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 4.1.6 - Security of cash			
Risk Ranking	MEDIUM		
Criteria/Importance			
Staff with responsibility for taking cash to the bank is always vulnerable to robbery. It is considered best practices for people who take cash to the bank is to have someone accompany them. This will reduce the risk of robbery.			
Condition			
We have observed that cash is carried to bank by a single person.			
Implication			
There are always chances of robbery			
Recommendation			
It is recommended that atleast two people should carry cash with them to bank.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

4.2 *Performance*

Observation 4.2.1 - Significant variation between budgeted and actual receipts**Risk Ranking****HIGH****Criteria/Importance**

Budget acts as an effective management tool by providing a means of identifying and allocating limited resources (Revenues), and monitoring their use (Expenditures). In order to ensure the aforesaid objective it is imperative that the budget should be prepared meticulously and all the relevant factors taken into consideration.

According to GFR section 73 (viii) “the estimate of receipts and varying charges should not be merely an arithmetical average of three years figures. the average is a guide but it should not be taken absolutely”

Condition

It was observed that actual revenue for the year 2011-2012 was 23.85 % more than budgeted revenue. A comparison of budgeted revenue, actual revenue and budgeted revenue target achieved for last two years is given below.

	<u>Estimated Receipts</u>	<u>Actual Receipts</u>	<u>Target achieved</u>
Period	Rs.	Rs.	%
2010-2011	42,000,000	44,717,276	6.08 (over)
2011-2012	49,000,000	64,347,818	23.85 (over)

Implication

Continuous high variation creates doubt on basis of estimate.

Recommendation

It is recommended that receipt estimates to be prepared taking into account all the relevant factors. Capacity building of the staff involved in budgetary process should also be on the priority list of the management.

Management Response**Further Audit Comments****Action Plan**

Role Responsible	Director Finance	Estimated Completion Date	TBA
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5. Part III - Human Resources Management Issues

5.1 *Internal Control Weaknesses*

Observation 5.1.1 - Human Resources Policy			
Risk Ranking	HIGH		
Criteria/Importance			
<p>Every organisation should have a clear HR policy, that should be properly disseminated to all staff and the same should be understood by them. The benefits of such a policy are:</p> <ul style="list-style-type: none"> • Communications with employees are easy and effective. • Communications with managers and supervisors: • Time Savings: analysis, marketing campaigns, etc. • Curbing litigation <p>The main objective of an HR policy is “Right person, at the Right place, at the Right time”</p>			
Condition			
<p>It was observed that there is no proper HR policy in place. All the managerial posts in the hospital are filled in by doctors normally.</p>			
Implication			
<p>The policy of having “Right person, at the Right place, at the Right time” will not be achieved</p>			
Recommendation			
<p>It is recommended that a proper HR policy needs to be developed.</p>			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 5.1.2 – Proper maintenance of HR records			
Risk Ranking	HIGH		
Criteria/Importance			
The HR policy of an organisation requires that all employees' service records are duly maintained and properly secured/ preserved. The employees should have a training matrix and defined roles and responsibilities.			
Condition			
During the course of audit, while interviewing different people from HRD and review of personnel files, following observations came to our attention:			
<ul style="list-style-type: none"> • The HR department was not using any HR specialized software and mostly work done was manually. • Some of the basic information was missing regarding, such as Personnel information form, interview documents, selection committee documents etc. • There are no documents about resource planning, training and developments. • Employees were unaware about their duties and responsibilities and when the new employees were hired they are not handed over any written duties and responsibilities. • Lack of communication channels among employees and management. 			
Implication			
The above conditions may lead to time consumption and human error, unfair selection of employees, lack of trained staff and not fulfilling one's duty, which will have an ultimate effect on the smooth operations of the hospital.			
Recommendation			
It is recommended that a proper and effective HR policy needs to be developed.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

5.2 Irregularities and Non Compliance

Observation 5.2.1. – Preparation of Seniority list			
Risk Ranking	HIGH		
Criteria/Importance			
<p>According to the notification of Health Department dated 26th of June, 2001 “the institution will prepare the seniority list of its employees”</p> <p>This list will apply to the employees hired by the hospital directly.</p>			
Condition			
<p>During the course of the audit we observed that no seniority list was maintained by the hospital and no specific time framework was present regarding promotions.</p>			
Implication			
<p>Biased and unfair promotions & increments may be given</p>			
Recommendation			
<p>The hospital needs to prepare seniority list of its employee for fair staff promotion purposes. An effective HR policy is also required.</p>			
Management Response			
<p></p>			
Further Audit Comments			
<p></p>			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA
<p></p>			

5.3 *Performance*

Observation 5.3.1 – Staff accommodation			
Risk Ranking	MEDIUM		
Criteria/Importance			
Facility of accommodation is provided by government to people working in different departments. The facility is withdrawn once a person retires and is provided to the next eligible employee.			
Condition			
During the course of the audit we observed that accommodation facility was still enjoyed by retired employees of the hospital.			
Implication			
The entitled employees of the hospital will be deprived of their right to avail the government facility			
Recommendation			
It is recommended that proper record of all accommodation facilities should be maintained. Moreover, the accommodation may be vacated from the retired employees and a market rate rent recovered from them.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 5.3.2 – Key Posts vacant**Risk Ranking****MEDIUM****Criteria/Importance**

In order to achieve its operational targets it is important for an organisation to have the required number of people working in different departments. A level below the required average will adversely affect the operational efficiency and effectiveness of the organisation.

Condition

We noticed that during the period (June 11- May 2012) the total budgeted staff required was 2,606 while the current working staff is 2,213, representing an average shortage of 18 % of budgeted staff. This was evident from comparison of budgeted and actual staff.

Staff	Budgeted	Actual	% Difference
Officer(Avg.)	950	783.25	21
Other staff (Avg.)	1656	1429.50	15
Total	2606	2213	36

Shortage on (Avg. basis) = $36/2 = 18\%$

Implication

Operational efficiency and effectiveness of the organisation will be adversely affected

Recommendation

Measures should be taken to hire skilled staff to ensure smooth running of hospital's operations

Management Response**Further Audit Comments****Action Plan**

Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 5.3.3 – Human Resource Department			
Risk Ranking	MEDIUM		
Criteria/Importance			
A proper Human Resource Department with appropriate professional staff is required for the smooth running of an organisation. The department deals with all the important issues relating to employees of the organisation such as hiring & firing policies, trainings and promotions etc.			
Condition			
It was observed that there was no proper HR department being setup in the hospital .The establishment section, was looking after the HR related issues, comprised of an office superintendent and few clerks, which we consider insufficient and unqualified for the said task.			
Implication			
Operational efficiency and effectiveness of the organisation will be adversely affected			
Recommendation			
We consider that a proper HR department should be setup and only qualified and experienced managers should be employed at managerial position.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

**6. Part IV - Information Technology
related Issues**

6.1 *Internal Control Weaknesses*

Observation 6.1.1 – Unlicensed software			
Risk Ranking	HIGH		
Criteria/Importance			
A software license is a legal instrument governing the use or redistribution of software. It provides certain benefits to the user of the software such as free post implementation services, upgrade etc. Normally all softwares are copyright protected.			
Condition			
During the course of audit it was observed that the hospital was using certain unlicensed softwares.			
Implication			
As a result the hospital will not have access to upgrades, other services provided by the vendor. Moreover, use of unlicensed software may result in copyright infringement.			
Recommendation			
It is recommended that only licensed copy of the softwares should be used.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 6.1.2 – Non availability of Uninterruptible Power Supply			
Risk Ranking	HIGH		
Criteria/Importance			
<p>The biggest, most noticeable advantage of a Uninterruptible Power Supply (UPS) is when power is lost the UPS keeps the system up and running long enough to save the work and safely shutdown. It is certainly important to have if certain operations of the organisation are carried out using computers e.g. issuing of computerized receipts and recording of receipts in the system etc.</p>			
Condition			
<p>It is observed that most counters have computer and issue computerised prescription chits to patients but no electricity backup was maintained. Similar was the case with Database servers and with standalone computers at the counters in the OPD, A&E, etc.</p> <p>Furthermore, it was also observed that besides issuing computerized chits, the computer operators also issuing manual receipts at Laboratory and Radiology as the computers doesn't have a backup power supply.</p>			
Implication			
The above condition may lead to weak controls over cash receipts.			
Recommendation			
It is recommended that electricity backup system may be provided with no further delay			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 6.1.3 – Disaster recovery planning			
Risk Ranking	HIGH		
Criteria/Importance			
An important element of the Disaster Recovery Planning is to keep the backup data not in a close physical proximity to the site which is being protected against a disaster.			
Condition			
Main Data base server and backup data server are placed in same room so if there is any misshape then there is high risk of loss of historical Data permanently			
Implication			
In the event of a disaster say fire, the backup media will also charred beyond recognition along with the computer terminals and the entire office			
Recommendation			
It is recommended that backup data to be kept at a physical location far way from the main facility			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 6.1.4 – Availability of fire extinguishers			
Risk Ranking	HIGH		
Criteria/Importance			
An important part of the IT asset protection policy is to have fire extinguisher installed in close proximity to the server room and other IT rooms.			
Condition			
It was observed that no fire extinguishers and other safety measures were available for IT equipment.			
Implication			
In the event of fire it will not be possible to safeguard IT equipment			
Recommendation			
It is recommended that fire extinguishers should be installed in close proximity to the IT rooms. These should also be regularly maintained and tested.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 6.1.5 – Physical access issues			
Risk Ranking	HIGH		
Criteria/Importance			
An important part of the IT asset protection policy is to grant physical access to the IT equipment on a need basis.			
Condition			
During the course of the audit it was observed that IT department is situated on 2 nd floor of ENT block and everyone had an easy access to server room.			
Implication			
Both IT equipment and data will be at risk of damage/theft.			
Recommendation			
It is recommended that the access to the server room be restricted to specific employees.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

6.2 *Performance*

Observation 6.2.1 – *ONLINE HOSPITAL MANAGEMENT SYSTEM (OHMS)* failed to meet its objectives

Risk Ranking

HIGH

Criteria/Importance

The Objective of OHMS was as follows “ to fully computerize the Lady Reading Hospital to ensure the reliability, Security, services and to improve the patient treatment system and its record, HR, Stores, Pharmacy and Accounts”

Condition

During the course of the audit it was observed that even after handing over of the OHMS to the hospital in 2009, some of the key areas such as HR, Stores, and Pharmacy were still not computerized and were using manual system.

Implication

Management will not benefit from all the features of the software.

Recommendation

It is recommended that management needs to take maximum benefit from the system

Management Response

Further Audit Comments

Action Plan

Role Responsible

Director Finance

**Estimated Completion
Date**

TBA

Observation 6.2.2 – Key IT posts remained vacant during the year			
Risk Ranking	HIGH		
Criteria/Importance			
In order to achieve its operational targets it is important for an organisation to have the required number of people working in different departments. A level below the required average will adversely affect the operational efficiency and effectiveness of the organisation.			
Condition			
It was observed that important posts in the Information Technology Department remained vacant through out the year and specialized IT related functions were run by the hospital employees working in the capacity of computer operators. For details of staff kindly refer to annexure 2.			
Implication			
Absence of key IT staff will have adverse effect of the operations of the department			
Recommendation			
It is recommended that management should employ the required staff as per hospital's policies and procedures			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 6.2.3 – Risk related to loss of patient data			
Risk Ranking	HIGH		
Criteria/Importance			
It is important for the management of the hospital to ensure that the IT equipment is safeguarded in order to have the system running smoothly and efficiently. In case of a breakdown the issue need to be resolved in a timely fashion so as to minimise loss to both equipment and data.			
Condition			
During the audit we observed that the one of hospital zone was completely disconnected from the network due to cut off of the Optical Fiber cable used in networking.			
Implication			
The above condition will result in loss of control over disconnected areas, loss of valuable data and patient information.			
Recommendation			
The network should be repaired on priority basis to connect the zone to the main server. Redundant network connectivity sources should also be installed to provide backup service			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 6.2.4 – Adoption of new technology			
Risk Ranking	HIGH		
Criteria/Importance			
With every release of a new version of software the vendors of software discontinues support for the previous version. This results in the software prone to security threats such as hacking. Organisation should upgrade to the new version so that there software and data remains secured.			
Condition			
During review IT system it was observed that older versions of operating system were in use.			
Implication			
The above condition may result in loss of important data.			
Recommendation			
New version of operating software should be installed on all the computers			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

**7. Part V - Procurement and Stores
related Issues**

7.1 *Internal Control Weaknesses*

Observation 7.1.1 – Purchase requisitions not available			
Risk Ranking	HIGH		
Criteria/Importance			
The purchase requisition serves the following important functions in a purchase cycle. Firstly, it acts as an instruction to stores from a department to order goods. Secondly, it is used as a control tool to check whether the goods purchased were of the same quantity as requisitioned. Finally, it is consulted to transfer goods to the particular department from where the requisition was generated.			
Condition			
During the course of audit it was observed that, in certain cases, requisition forms were not available on the file.			
Implication			
Proper control over goods ordering and transfer may be lost.			
Recommendation			
It is recommended that purchase requisition forms should be prepared and properly filed.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 7.1.2 – Inventory management			
Risk Ranking		HIGH	
Criteria/Importance			
Hospital plays an important role in providing health services to the community at large. It is necessary that these services should be provided in a timely fashion. Provision of medicine is one of the basic functions the hospital performs. To provide this service efficiently the hospital needs to manage the inventory in a very professional manner. One of the important controls in inventory management is to determine the re-order level. The re-order level ensures trade off between stock out and carrying excessive inventory.			
Condition			
During the course of audit it was observed that, in certain cases, re-order level has not been developed.			
Implication			
There are chances that important medicine are not available in time to patients			
Recommendation			
It is recommended that reorder level should ascertained for inventory.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 7.1.3 – Year end physical stock take and coding system – Equipment Store			
Risk Ranking	HIGH		
Criteria/Importance			
According to APPM (accounting policy and procedure manual) Section 13.3.6 “the delegated officer shall ensure that the balances recorded in store account are regularly checked by stocktaking at least once a year. The condition of goods should also be examined”			
Condition			
During the course of audit, on enquiry from staff, we noted that no stock taking has been done for last three years. Furthermore, no coding system is in place for equipment			
Implication			
Loss of control over stock items and increase chance of theft/losses.			
Recommendation			
It is recommended that stock count should be carried out atleast once a year and management should implement proper coding system.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 7.1.4 – Inventory issue from the linen stores			
Risk Ranking	HIGH		
Criteria/Importance			
It is imperative to have strong controls over inventory management including issue of inventory. These controls will mitigate the risk of damage, loss or theft.			
Condition			
During the audit of the linen store operating procedure (demand, receipts, issues) we noticed that some of items such as bed sheets at the time of issue were stamped with ink and there was no clear sign on them. Incase of other hospitals like Shifa International Hospital bed sheets are clearly marked with institution name at the middle of bed sheet which can neither be washed out nor removed.			
Implication			
These items bear risk of theft/loss			
Recommendation			
It is recommended that the store management should use permanent stamps instead of ink.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

8. Part VI - Service Delivery Issues

8.1 *Performance*

Observation 8.1.1 – Bed occupancy ratio higher than 100%**Risk Ranking** HIGH**Criteria/Importance**

In order to provide the efficient and effective services to its customers the bed occupancy ratio should not exceed a certain threshold. It is normally considered that the bed occupancy ration should not exceed 85%.

Condition

Bed occupancy of the Hospital during the last two years was as follows:

Period	No. of Beds	BOR %
2010	1566	110
2011	1800	105

Further bed occupancy of LRH Peshawar was higher than FFH Peshawar and urban hospitals. A comparison of bed occupancy of LRH with FFH hospitals for two years is given below.

Period	LRH	FFH
2010	110 %	52 %
2011	105 %	65 %

We have informed by the management that this over occupancy is due to use of extra beds for patients in lounge.

Implication

This will affect the service delivery of the hospital.

Recommendation

Construction of new units on a need basis .

Management Response**Further Audit Comments****Action Plan**

Role Responsible

Director Finance

Estimated Completion Date

TBA

Observation 8.1.2 – Patients’ medical cost per day**Risk Ranking****HIGH****Criteria/Importance**

World Health Care Organization, in its *report Primary Health Care Now no more than ever* emphasizes to “Achieve better outcomes for their citizen at a lower cost”

Condition

We noticed that cost of medicines per patient per day during last year was Rs.23.21 per day whereas in case of FFH Peshawar cost of medicine per patients was Rs.20 per day.

A comparison of cost of medicines per patient per day for last two years is given below.

Period	Budgeted Rs.	Actual Rs.	Diff Rs.
2010	40.77	23.21	17.56
2011	38.31	37.03	1.28

Period	LRH Rs.	FFH Rs.	Diff Rs.
2011	23.21	20	3.21

If the management reduces per patient cost of medicine by Rs.3.21 as a result they can save 5,027,729 of rupees.

Implication

Can affect saving of organization.

Recommendation

Management needs to adopt cost reduction strategy.

Management Response**Further Audit Comments****Action Plan**

Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 8.1.3 – Non availability of specialized Ultrasound in 2nd shift			
Risk Ranking	HIGH		
Criteria/Importance			
It is the primary responsibility of a hospital to provide cost effective service to its customers with out any discrimination.			
Condition			
We noticed that Radiology department was only working from 8 to 12 in the morning shift and specialist staff is only available in the morning shift.			
If a patient needs specialized Ultrasound (Doppler) at any other time of the day then he/she has no choice except to get the service from outside market			
A comparison of cost of LRH and outside market is shown below.			
	LRH Price Rs.	Outside Market Price Rs.	
Ultrasound	120	700	
Implication			
Patients will be overburdened by the high cost of ultrasound			
Recommendation			
The management needs to provide specialized staff in the 2 nd shift of the day			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 8.1.4 – Non availability of waste management plan			
Risk Ranking	HIGH		
Criteria/Importance			
<p>Poor management of health care waste may expose health care personnel, waste handlers, and the community to infectious agents, toxic materials, and an increased risk of injury. It may also damage the environment (e.g., contamination of water, air, and food). In addition, if waste is not disposed off properly, members of the community may have an opportunity to collect disposable medical items (particularly syringes) and to re- pack and sell these materials.</p>			
Condition			
<p>During the course of the audit we observed the following:</p> <ul style="list-style-type: none"> • Waste management plan was not prepared by Hospital as required by Hospital waste management rules, 2005. • Waste management committee was present but not actively working. • Incinerator needs to be repaired. • Employees were unaware of the waste management plan & types of wastes. • Personal visit to the units we observed used syringes scattered on the floor. • Needle cutters are not available. • Dustbins are emptied twice a week while it should be twice daily at the end of each shift. • Autoclave machine was not present in department of pathology. 			
Implication			
Above issues will have adverse effect on the health of patients and staff. Moreover, there will be a threat to environment & Public at large.			
Recommendation			
It is recommended that a proper waste management plan should be prepared by the management keeping in view the above issues.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 8.1.5 – Installation of X-RAY machines in normal rooms			
Risk Ranking	HIGH		
Criteria/Importance			
X-Rays plants are required to be installed in a special purpose built rooms to avoid the hazardous effect on the health.			
Condition			
During the course of the audit we observed that X-Ray plants were installed in normal rooms rather than special purpose built rooms.			
Implication			
Health hazards may be caused due to X-Rays.			
Recommendation			
Purpose built rooms should be made available to radiology with full protection against X-Rays.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 8.1.6 – Non availability of necessary equipment			
Risk Ranking	HIGH		
Criteria/Importance			
<p>A hospital should have all the necessary equipment to deal with emergency of any scale. Moreover, provision of work conducive environment to the employees is the main responsibility of an organisation. This also includes making available necessary equipment and tools so that employees can discharge their duties efficiently and effectively.</p>			
Condition			
<p>During the course of the audit we observed that the following:</p> <p>The A&E Department has two Operation Theatre 1) normal Patients OT with 4 Operation Table and 2) Bomb blast OT with 2 Operation Table. The Bomb Blast OT has no Heating & Air Conditioning system. Two split A.Cs of 1-tone each were installed in normal Patient OT which were not enough. No heating system was available</p> <p>One Calibration Machine is available which was donated by a firm and has been waiting for maintenance for many months. Only one Tools sterilizing machine for both OT.</p> <p>During visit to staff room we have noticed that there was no chair and table, only one patient bed was lying in the room which the OT staff use for rest in free time.</p> <p>Newly Build OT which is not yet operational ha been built without any consultation from the OT staff.</p>			
Implication			
Both the patients and employees of the hospital will suffer due to non availability to necessary equipment			
Recommendation			
The management needs to solve all these problems on priority basis			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 8.1.7 – Miscellaneous issues related to Ambulances			
Risk Ranking	HIGH		
Criteria/Importance			
. “Dispatchers save seconds and seconds saves life”			
Condition			
Leady Reading Hospital operates 8 ambulances, 4 large and 4 small. During the course of the audit following observations were made about the ambulances:			
<ul style="list-style-type: none"> • Only one out of four large ambulances was in good condition. • Ambulances were also used for other hospital work such as pick and drop of doctors and courier services. • Total 20 drivers out of which 3 drivers are appointed as Ward Orderly’s while they were working as drivers since last few years. • Ambulances were not up to the standards i.e. they lack certain medical equipment commonly used in ambulances. • Four ambulances were disposed of in October, 2012 but no vehicle was purchased in replacement of those disposed of ambulances. 			
Implication			
<ul style="list-style-type: none"> • Delays in transportation of patients may occur due to unsatisfactory condition of vehicles which may lead to loss of life. • In case of emergency ambulances may be unavailable due to the usage of ambulances for other hospital services. • Loss of life may occur due to the non availability of standardized medical equipment. 			
Recommendation			
Following are our recommendations:			
<ul style="list-style-type: none"> • Proper repair& maintenance should be carried out. • A separate vehicle should be made available for other hospital services. • Fully equipped ambulances should be purchased 			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 8.1.8 – Delay in payments to suppliers			
Risk Ranking	HIGH		
Criteria/Importance			
In the modern business environment suppliers are considered to be partners in the business. They provide the organisation with the necessary quality input making it possible for the organisation to serve its customers efficiently.			
Condition			
During the course of the audit we observed that payments to the suppliers were delayed.			
Implication			
Quality suppliers may stop doing business with the hospital			
Recommendation			
It is recommended that the management should make timely payments to the suppliers while following all the necessary formalities.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Observation 8.1.9 – Hygiene related issues			
Risk Ranking	HIGH		
Criteria/Importance			
A clean environment not only have a positive impact on the patients but also on the staff working in an organisation			
Condition			
During the course of the audit, while discussion with the staff, we observed that floors, in different units, were washed with tap water with no floor washing detergent and only once in a week floors were washed with phenyl detergent.			
Implication			
Unhygienic environment will have health risk for both patients and staff.			
Recommendation			
Each unit should be provided with phenyl detergent on need basis.			
Management Response			
Further Audit Comments			
Action Plan			
Role Responsible	Director Finance	Estimated Completion Date	TBA

Risk Matrix

Function Assessed	IR	CR	RoSM
Operational	High	High	Medium
Performance	High	Medium	Medium
Procurement	High	Medium	Medium
Financial Management	High	Medium	Medium
HR Management	High	High	Medium
Store Management	High	High	High
Fixed Assets Management	High	High	High
IT	High	High	High

List of vacant IT staff

S/No.	Designation	BPS	Sanctioned	Filled	Vacant
1	Manager Operation	17	1	1	0
2	Database Administrator	17	1	0	1
3	Network Administrator	17	1	0	1
4	Assistant Database Administrator	16	1	0	1
5	Assistant Network Administrator	16	1	0	1
6	Assistant Programmer	16	1	0	1
7	Data Processing Supervisor	14	1	0	1
8	Computer Operator	12	80	78	2
9	Computer Hardware Technician	11	1	0	1